# In the Supreme Court of the United States

## October Term, 1964

No. [redacted] 20

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
*Petitioners*,

v.

THYS COMPANY, *Respondent*.

# Brief of Respondent in Opposition

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# Brief of Respondent in Opposition

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## QUESTION PRESENTED

1. Whether review by this Court on certiorari is warranted, and whether petitioners may evade their unambiguous obligations to pay patent royalties pursuant to their written royalty contracts, for the use or the right to use portable hop picking machines purchased and used by them embodying numerous patents held by respondent, where the contracts as a matter of mutual convenience in financing arrangements provided that the royalties should be payable over a future period of 17 years, irrespective of the expiration dates of the various patents involved, and the state courts have sustained the validity and enforcibility of the contracts.

## STATEMENT OF THE CASE

This is *not* a federal court suit in equity to enjoin infringement of a patent, nor a government anti-trust suit. These are two consolidated state court actions at law to recover money judgments for unpaid balances of patent royalties based on written royalty contracts between the parties, for the use or the right to use portable hop picking machines purchased and used by the defendants-petitioners.

The machines embody numerous patents held by plaintiff-respondent Thys Company, hereinafter referred to as Thys or respondent. As a matter of mutual convenience in financing arrangements, the contracts provided that the royalties in the sum of \$3.33⅓ per 200 pound bale of hops, with an annual minimum royalty of \$500.00, plus the state excise tax, should be payable over a future period of 17 years, irrespective of the expiration dates of the various patents involved. This was mutually agreed upon as a matter of mutual convenience in financing arrangements, so as to give the contract purchasers, including petitioners, the substantial benefit of a longer period of time over which to spread the payment of the agreed royalties, thus reducing the amount which would have been otherwise payable annually, and also providing a uniform and non-discriminatory payment period for all machine purchasers, irrespective of the date of purchase.

The trial court entered judgment in favor of re-

spondent, and this was unanimously affirmed by the Washington State Supreme Court.

The royalty contracts are quoted in the defendants' petition for certiorari, appendix C, pages 41a to 55a. They show on their face the date of issuance of the various patents involved. The machine purchasers are presumed to have known that each patent expired 17 years thereafter. In addition to listing the 12 specific patents of respondent, the same also stated "other patents pending." There were then three patent applications pending, upon which patents were subsequently issued to Thys, and the same have not expired. Four other picking machine patents were subsequently applied for and issued to Thys, and they have not expired.

The issues arise entirely upon the defendants-petitioners' affirmative defenses pleaded in their answers, as eventually amended in the middle of the trial. As to these affirmative defenses, the petitioners of course had the burden of proof. Both state courts have now held—and clearly held correctly—that the petitioners have failed to sustain their burden of proof as to any of these affirmative defenses.

These hop picking machine inventions were made and patents obtained by Thys as a result of a great deal of experimental research, work, time, effort and expense. (St. 19, 41-43, 68, 87, 131, 132). (All evidentiary record citations herein are to the typewritten pages of the court reporter's transcribed statement of

facts, as the same has not been printed.) The original purchase price covered only Lindeman's manufacturing costs and profit but did not include any compensation to Thys for the use of the patented inventions. The hop farmer purchasers could not afford to pay the full amount of purchase price and royalties as reimbursement therefor at the time of delivery of the machines. In fact the more liberal the financing arrangement and the longer the period of time—17 years—allowed in which to pay the royalties, the more advantageous for the farmers. No interest was charged prior to the annual royalty maturity dates. In this manner the hop farmers could pay the royalties over a period of years out of their savings in labor costs by the use of the hop picking machines. (St. 57, 62-3, 76-7, 132-4).

Originally the agreed royalty was \$5.00 per bale for a 17 year period with a \$500.00 annual minimum. Thereafter there was temporarily such a demand for such machines (especially during World War II) that Thys voluntarily made a concession and reduced the royalty to \$3.33⅓ per bale, with a minimum annual royalty of \$500.00. Rather than reduce the term of payment, it was considered preferable and for the best interests of the machine purchasers to continue for the same 17 year term, but to reduce the annual royalty rates. (St. 70-72, 132, 133).

It is undisputed that petitioners never sought or requested a license as to part but not all of the Thys pat-

ents listed in the contracts. Thys never insisted that a license be accepted as to all or none of the patents. Thys never refused to grant a license under any one or more of the patents to anyone who refused to take a license under all of them. Thys was merely licensing the right to use a particular machine and without additional charge threw in all of the patents he had, irrespective of whether or not they were actually used or incorporated in the machine at that particular time. (St. 57, 58, 129-131).

Thys included all twelve of his issued picking machine patents and also all of his pending patent applications so that these machine purchasers would have the right, if they so desired, to later incorporate in their machines any features or improvements covered thereby. This was done by numerous machine purchasers. These improvements were available for use in any of the machines and were actually incorporated in petitioners' machines as well as others. (St. 122-128). No additional royalty charge whatever was made by reason of the inclusion thereof in the contracts. The total of seven such patents were subsequently issued to Thys pursuant to said pending patent applications and are still existing and unexpired. (St. 67, 74, 116-129, 137-139).

Thys listed all 12 of his issued patents in the license contracts for two reasons: (1) to protect the machine purchasers against any possible claim on the part of

anyone that there was an infringement of any existing patent, and (2) frequently the machine purchasers later desired to add improvements and additional parts, such as supplementary cleaning equipment, to the picking machines, and it was desired to avoid any possible claim of patent infringement by reason thereof. (St. 129-131).

In paragraph 7 of the findings of fact the trial court found:

> "*The plaintiff was not guilty of any misuse of its patent rights.*" (Tr. 19-25)

No error has been assigned by petitioners to this or any other finding of fact or conclusion of law made by the trial court.

No portable hop picking machines have been manufactured or sold new since 1947 because there was insufficient demand therefor. There was insufficient profit therein to induce either Thys or any prospective competitor to do so. Subsequently purchasers of new machines have desired stationary rather than portable machines. However, Thys has never suppressed competition nor sought a monopoly. In fact there has been no monopoly at all as to hop picking machines. (St. 42, 76, 77, 111).

## ARGUMENT

### 1. The Decision Below Is Clearly Correct

The issue in the present case is uniquely narrow, and no amount of strained semantics can convert it

into one warranting review by this Court on certiorari. Manifestly there is here no important question of federal law requiring or warranting decision by this Court. After a careful consideration of the evidence and the applicable authorities the trial court clearly concluded that the defendants-petitioners had failed to sustain their burden of proof on any of their affirmative defenses, and consequently entered judgment in favor of the plaintiff respondent. This was unanimously affirmed in the departmental opinion of the Washington State Supreme Court. *Thys v. Brulotte*, 162 Wn. Dec. 281, 382 P. 2d 271. Thereafter petition for rehearing was denied. On these individual facts hereinabove summarized, the decision of the Supreme Court of the State of Washington affirming the trial court's judgment was manifestly correct.

Each contract on its face showed the date of issue of each of the twelve listed patents. (Ex. 1, 3). Each licensee is charged with the legal knowledge that each patent expires 17 years thereafter. In order to avoid unfair discrimination between different licensees, Thys adopted the plan that each license royalty period would be for a uniform 17 years from date of each contract, irrespective of the patent expiration dates. Any other method would have unfairly discriminated against the earlier licensees.

Originally each contract provided for a royalty of $5.00 per 200 pound bale of dried hops for a 17-year

period, subject to a minimum royalty of not less than $500.00 per year, plus taxes, if any. Several years later (and prior to the execution of these two contracts) as a result of the then heavy demand for these Thys portable hop picking machines and their widespread commercial success, Thys decided to make a substantial concession voluntarily as to royalties. This could have been done by shortening the royalty period. However, actually it was done by leaving the 17-year royalty period the same and reducing the annual royalty from $5.00 to $3.33⅓ per bale, the $500.00 annual minimum plus taxes remaining the same. This was readily agreed to by the machine purchasers because the purpose and intention of this agreement was to give hop growers more time for financing purposes to pay the original cost plus the royalty charges on their machines. Otherwise for many less affluent hop growers the expense would have been prohibitive unless spread out over as lengthy a period as 17 years. This enabled the hop growers to pay the royalties out of the savings and economies in machine operation as contrasted with the former system of picking hops by hand. Obviously this arrangement promoted the mutual convenience of the parties and was especially beneficial and advantageous to the machine users. The licensees were not injured, as this resulted in giving them a longer period of time in which to pay off without interest the royalty indebtedness, which was certainly for their financial benefit.

A further conclusive answer to this contention is that, as testified by Thys, at least three patents subsequently issued, namely, Ex. 22, 23, and 25, are incorporated, used, and included in these license royalty contracts under the term "other patents pending." (St. 67, 74, 116-129, 137-139). These subsequently issued patents of course have not yet expired. At least two of these subsequent patents are applicable to each petitioner herein. Also, this clause included four other patents which were subsequently applied for and issued and which likewise have not yet expired.

When these contracts were prepared and executed, the legal authorities were unanimous in sustaining their validity. Under these circumstances it would now be a gross and flagrant miscarriage of justice if it were to be judicially determined that the same are invalid. Certainly there is nothing against public policy in permitting the parties a wide range of desirable freedom of contract in accordance with local state laws. The decision below is clearly correct, is in accord with at least the great weight of authority, and is based on sound reason and principle.

As hereinabove stated, this is a state court action at law to recover unpaid balances of patent royalties pursuant to written royalty contracts. It is not a federal equity suit to enjoin infringement of a patent nor to enjoin a violation of the anti-trust laws. However, with one possible exception (Ar-Tik), none of the

cases cited by petitioners are actions of this nature to recover royalties.

A reversal of these judgments would be contrary to the controlling decisions of this Court on this subject. The leading case is this Court's decision in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 94 L. ed. 1312, 70 S. Ct. 894, (1950), rehearing denied, 340 U.S. 846, 95 L. ed. 620, 71 S. Ct. 13, which affirmed (C.A. 1) 176 F. 2d 799, affirming 77 F. Supp. 493. This decision was five years subsequent to *Scott Paper Company v. Marcalus Manufacturing Co.*, 326 U.S. 249, 90 L. ed. 47 (1945), and if there be any inconsistency between them, the latter Hazeltine decision is controlling. The latter was an action, as in this case, brought by Hazeltine, the plaintiff licensor, to recover on a license royalty contract. The contract contained a long list of plaintiff's patents which the defendant, a manufacturer of radio receivers, was licensed to use in homes, for educational purposes, and private non-commercial use. As the agreed royalty, defendant agreed to pay a certain percentage of its gross sales of radio equipment, subject to an agreed minimum royalty of $10,000.00 per year. The case was so clear that the district court granted a summary judgment in favor of the plaintiff pursuant to said royalty contract, and this was affirmed by both appellate courts.

At page 496 the district court said:

"*This is a convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of defendants' product embodies any of the hundreds of patents which plaintiff controls. There is nothing inherently illegal in such an arrangement. (Citing cases) And non-use of the patents is not a defense to an action on the contract. . . . It being itself a valid contract, collateral activities of the plaintiff do not render it unenforceable." (Citing cases.) (All italics herein are ours.)

This was quoted with approval by Judge Magruder speaking for the Court of Appeals at page 804, and the court added:

"There is no valid objection to this sort of agreement; the parties are free to bargain as to the basis upon which the royalties are to be computed." (Citing cases.)

In affirming this decision, this Court at 339 U.S. 833-4, 94 L. ed. 1318-9 said:

"The licensing agreement in issue was characterized by the District Court as essentially a grant by Hazeltine to petitioner of a privilege to use any patent or future development of Hazeltine in consideration of the payment of royalties. *Payment for the privilege is required regardless of the use of the patents.* The royalty provision of the licensing agreement was sustained by the District Court and the Court of Appeals on the theory that it was a *convenient mode of operation* designed by the parties to avoid the necessity of determining whether each type of petitioner's product embodies any of the numerous Hazeltine patents. . . . The Court of Appeals reasoned that since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents, it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege. . . . Numerous District Courts which have had occasion to pass

on the question have reached the same result on similar grounds, *and we are of like opinion.* . . .

"*We cannot say that payment of royalties according to an agreed percentage of the licensee's sales is unreasonable.* Sound business judgment could indicate that such payment represents *the most convenient method* of fixing the business value of the privileges granted by the licensing agreement."

The decision of this Court in the *Hazeltine* case is directly in point and sustains the validity of these contracts under these circumstances as a convenient method of permitting these hop farmers to finance their mechanical hop picking operations out of the savings due to the use of their machines over a 17-year period.

Also as this Court said in *United States v. Masonite Corp.*, 316 U.S. 265, 86 L. ed. 1461, 62 S. Ct. 1070:

"... The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has received his reward for the use of the article."

In the leading case of *United States v. General Electric Company,* 272 U.S. 476, 71 L. ed. 362, Chief Justice Taft speaking for a unanimous Court said:

"Conveying less than title to the patent or part of it, the patentee may grant a license to make, use use and vend articles under the specifications of his patent *for any royalty or upon any condition the performance of which is reasonable* within the reward which the patentee by the grant of the patent is entitled to secure. . .

"*We think he may do so provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly.* . . . .

*"The very object of these laws is monopoly* and the rule is with few exceptions, that any conditions which are not in their very nature illegal with regard to this kind of property, imposed by the patentee and agreed to by the licensee for the right to manufacture or use or sell the article, will be upheld by the courts. The fact that the conditions in the contracts keep up the monopoly or fix prices does not render them illegal."

In *United States v. Univis Lens Co., Inc.*, 316 U.S. 241, 86 L. Ed. 1408, 62 S. Ct. 1088, Chief Justice Stone speaking for this Court unanimously clearly pointed out this fundamental distinction, saying:

*"We have no question here of what other stipulations, for royalties or otherwise, might have been exacted as a part of the entire transaction, which do not seek to control the disposition of the patented article after the sale."*

As well stated by the state Supreme Court in the decision below herein:

"The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are *E. R. Squibb & Sons v. Chemical Foundation, Inc.*, 93 F. 2nd 475; *Starke v. Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882; (affirmed on same opinion [C.A. 6] 283 F. 2d 117); *Tate v. Lewis*, 127 F. Supp. 105; *H-P-M Development Corp. v. Watson-Stillman Co.*, 71 F. Supp. 906; and *Six Star Lubricants Co. v. Morehouse*, 101 Colo. 491, 74 P. 2d 1239."

Among numerous other authorities to the same effect are: *Ellis Patent Licenses* (3 ed.) 118, sec. 98A, and

128, sec. 109; 69 *C.J.S.*, 780, 801-2, sec. 252, 262; 48 *C. J.* 271, sec. 428; *Bettis Rubber Co. v. Kleave*, 104 Cal. App. 2d 821, 233 P. 2d 82, 84; *Adams v. Dyer*, 129 Cal. App. 2d 160, 276 P. 2d 186; *Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co.*, 44 F. Supp. 396; and *Walker, Patents*, p. 456 (1961 Supp. to Vol. II Deller's ed.)

Freedom of contract under the state law should especially be permitted in a situation such as this, where all parties knew what they wanted, namely the right to purchase and use a certain, single, definite patented machine—and this they received. There is no contention or evidence showing any coercion or duress. The financial reward of the inventor was spread over a period of years, which was primarily for the benefit of the farmers.

Consequently, there was here no patent misuse, as correctly held by the state courts. Moreover, in any event this would not be a defense in a state court action at law to recover on a written royalty contract, as it is based upon the equity doctrine of unclean hands and is applicable only to federal equity patent infringement injunction suits.

Respondent has made no attempt to extend its *monopoly* of any patent beyond the 17-year period. Consequently, cases pertaining to that question are clearly distinguishable.

In *Thys v. State of Washington*, 31 Wn. 2d 739, 199

P. 2d 68, certiorari denied 337 U.S. 917, 93 L. Ed. 1727, 69 S. Ct. 1159, involving the same contract, the court held that these subsequent royalties were part of the legitimate reward of Thys for his research as an inventor and the same were properly considered a part of the purchase price and hence subject to the Washington state sales tax, and until full payment of the royalties the patentee had not received its lawful reward for the use of the patented article.

### 2. Answer to Petitioners' Arguments

### A. The Cited Statutes Are Clearly Not Applicable.

At page 2 petitioners invoked the jurisdiction of this Court under 28 U.S.C. sec. 1257 (3). We submit, however, that this statute is not applicable at all. As the validity of a federal or state statute is not involved, this statute is applicable only "where any title, right, privilege, or immunity is specially set up or claimed under the Constitution, treaties or statutes of, or commission held or authority exercised under, the United States". We submit that this is not such a case. As well stated in sec. 205 of the U.S.C.A. annotation thereto:

> "*Patent Laws.* A suit on a contract of which a patent is the subject-matter, either to enforce such contract or to annul it, where the decision of the state court is based upon the contract, *does not present a federal question.*" (Citing cases)

In *Dale Tile Mfg. Co. v. Hyatt,* 125 U.S. 46, 31 L. Ed. 683, 8 S. Ct. 756, an action arising in a state court

to recover patent royalties on a contract as in this case, this Court said:

> "But it is clearly established by a series of decisions of this Court that an action upon such an agreement as that here sued on *is not a case arising under the patent laws.* . . . Where a suit is brought on a contract of which a patent is the subject-matter, either to enforce such contract or to annul it, the case arises on the contract, or out of the contract, and not under the patent laws."

In *Luckett v. Delpark*, 270 U.S. 496, 503, 70 L. Ed. 703, 705, Chief Justice Taft speaking for this Court said:

> "We do not think that this suit arises under the patent laws. Its main and declared purpose is to enforce the rights of the plaintiff under the contract with defendants for royalties. . . . It is a general rule that a suit by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use of a patent, is not a suit under the patent laws of the United States.

See also to the same effect: *Odell v. Farnsworth Co.*, 250 U.S. 501, 504, 63 L. Ed. 1111; *Felix v. Scharnweber*, 125 U.S. 54; *Brooks v. Missouri*, 124 U.S. 294; *Wood Machine Co. v. Skinner*, 139 U. S. 293; and *Jacobi v. Alabama*, 187 U.S. 133.

None of the statutes cited by petitioners in appendix B (p. 39a) are applicable. 35 U.S.C. sec. 154 is not applicable as respondent has never attempted to extend its *monopoly* of a patent nor to *exclude others* from making, using or selling the invention of a patent after its expiration.

Sec. 1 and 2 of the Sherman Anti-Trust Act as amended, 15 U.S.C. sec. 1 and 2, are clearly not applicable as, aside from lawful patent monopoly rights, respondent has not engaged in any contract, combination or conspiracy in restraint of interstate commerce, nor has it monopolized the hop picking machine industry. The competition from stationary hop picking machines is terrific. Clearly respondent has not violated any anti-trust laws.

### B. The Cited Cases Are Clearly Not Applicable

The petitioners' contentions are clearly not substantial and are without merit. The case principally relied upon, *Scott Paper Co. v. Marcalus*, 326 U.S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (Pet. 3, 12), which was decided five years prior to Hazeltine, is clearly distinguishable. It was a suit to enjoin patent infringement and did not involve any royalty contract at all. Defendant had previously assigned to plaintiff the patent in suit. The Court merely held that the defendant assignor was not estopped by virtue of the assignment to defend a suit for infringement of the assigned patent on the ground that the patent was invalid and that the alleged infringing device was that of a prior art expired patent. Obviously no such question is involved herein.

*American Securit Co. v. Shatterproof Glass Corp.*, (C.A. 3) 268 F. 2d 769, also strongly relied upon (p. 16) is likewise clearly distinguishable. It was not a royalty contract suit at all, but an action to enjoin pat-

ent infringement. It contains a brief dictum quoted by petitioners, but there was no discussion and no citation of any authority holding either way on this question. The fundamental basis of that decision was that it was a flagrant example of mandatory package licensing under an extreme factual situation, in violation of a consent decree previously entered against the plaintiff in an anti-trust suit brought by the federal government. Extensive negotiations had occurred between the parties, but in violation of said decree plaintiff arbitrarily refused to issue any license as requested by the defendant unless all of the patents were included in the license at an excessive royalty rate. Manifestly there is no such factual situation here.

*Ar-Tik System, Inc. v. Dairy Queen, Inc.*, (C.A. 3) 302 F. 2d 496 (Pet. 8, 11, 15), is also factually dissimilar as the contract required payment of royalties *indefinitely throughout the life of the machines sold*, and this was held to be a misuse of patents. Circuit Judge McLaughlin dissented. The majority expressly recognized that their decision was contrary to numerous cases cited therein and contrary to the great overwhelming weight of authority. These contracts had fully expired prior to that decision. The same is clearly unsound and should not be followed.

*Technograph Printed Electronics, Inc. v. The Bendix Corp.*, 218 F. Supp. 1 (Pet. 9, 10, 15) was merely a trial court decision which we understand is now on

appeal in the 4th Circuit. A decision as to whether it should be reviewed by this Court would certainly be premature at this time without the benefit of the appellate court's decision therein. It likewise was not a royalty action, but a patent infringement suit. Moreover the statement relied upon was pure dictum, as the court held that the patents were invalid and were not infringed. The court did not mention any of the numerous authorities in our favor nor even the Ar-Tik case which cites them. The court held that additional evidence would be necessary before a definite ruling could be made on this question. The case is therefore clearly distinguishable.

These cases are discussed in 31 Geo. Wash. Law Rev. 535, in which the final footnote 37 cites Hazeltine and as pointed out in the decision below, correctly answers the problem:

> "It would seem that in some situations such an agreement might be *justifiable as a convenient method of operation because of its extension of royalty payments over a period of time.* . . . Such a payment method also may be advantageous for tax reasons. But in the principal case, as testified to by the president of Ar-Tik Systems, the royalties were *payable indefinitely.* . . . Thus it could not be considered merely *a convenient method of payment.*"

This case is clearly distinguishable upon its facts from the allegedly conflicting decisions cited in the petition, and the decision herein really turns upon these factual differences. Consequently there is no substantial ground for the allowance of the writ.

As well stated by Judge Parker in *Saco-Lowell Shops v. Reynolds*, (C.A. 4) 141 F. 2d 587, 596, an action to recover royalties as in this case:

> "*The liability of the defendant for royalties, however, is to be determined by the terms of the contract, not by technical considerations of patent law.*"

The Saco case was approved and followed in *Reynolds Metals Co. v. Skinner*, (C.A. 6) 166 F. 2d 66, 73, certiorari denied, 334 U.S. 858, 92 L. Ed. 1778, 68 S. Ct. 1528, an action to recover royalties, in which Judge Allen speaking for the court said:

> "The controversy involves not a question of infringement, but a question of royalties due under a contract. Technical considerations of patent law are therefore not controlling. . . . *The rules announced in infringement cases such as Scott Paper Co. v. Marcalus Mfg. Co., Inc., . . . have no bearing here.*"

To the same effect are: *Eclipse Bicycle Co. v. Farrow*, 199 U.S. 58; *Carbo-Frost, Inc., v. Pure Carbonic, Inc.*, (C.A. 8) 103 F. 2d 210, 223; *Ekins v. Auto Arc-Weld Mfg. Co.*, (Ohio) 175 N.E. 2d 221, 235-6.

### C. The Tie-In Cases Are Clearly Not Applicable.

These cases (Pet. 3, 18-20) are expressly distinguished by this Court in Hazeltine and are not applicable herein. There is here no requirement by Thys that the licensees use in the operation of these machines any unpatented materials sold by him. Those were not even royalty contract cases, and as pointed out in both decisions below, they have no bearing on the present issue.

The following authorities, where this same defense was definitely overruled, clearly establish that this contention of the petitioners has no merit whatever as applied to this factual situation: *Great Lakes Equipment Co. v. Fluid Systems, Inc.*, (C.A. 6) 217 F. 2d 613; *Electric Pipe Line, Inc. v. Fluid Systems, Inc.* (C. A. 2) 231 F. 2d 370 and 250 F. 2d 697; and *Stearns v. Tinker & Rasor*, (C.A. 9) 252 F. 2d 589, cert. den. 350 U.S. 830.

### D. Mandatory Package License Cases Are Not Applicable

When carefully read, these royalty contracts provide that in order to use these machines embodying the Thys patents, a license and royalty payment are necessary, but they do not require compulsory package licensing. As pointed out in the decision of both courts below, the facts simply fail to support this contention. Neither petitioners nor any other licensee has ever requested that respondent issue a license for less than all of its patents. Respondent has never, either on the face of the contracts nor in actual practice, made any requirement that a license must be obtained under all of the patents. No additional royalty was ever charged. A mere gratuitous listing of all Thys' patents is not illegal, especially where only one single known machine is involved. The reasons were to avoid any patent infringement claims against any licensee and to give them the privilege of incorporating additional inven-

tions and devices in their machines if they so desired. The petition disregards the undisputed evidence and the findings of both lower courts and is wholly unsupported. The cases cited, such as *United States v. Loew's, Inc.*, 371 U.S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11, and *United States v. Paramount Pictures*, 334 U.S. 131, 92 L. Ed. 1260, are clearly distinguishable on their facts, and none of them was a royalty contract case.

**3. Since Scott No Conflict of Decision In the Circuits.**

Subsequent to this Court's 1945 decision in Scott and 1950 decision in Hazeltine there has been no conflict of decision in the federal circuits on this question. We submit that certiorari review by this Court would be wholly unwarranted at least until and unless subsequently a case arises in the federal courts where there is such a conflict of decision in the circuits. The present petition is therefore wholly premature, both generally speaking and with reference to the Technograph litigation.

Moreover, this is primarily a question of state contract law rather than federal law, and consequently such conflict, if any, would be immaterial in any event. As this Court recently stated in *Ruhlin v. N. Y. Life Insurance Co.*, 304 U.S. 202, 206, 82 L. Ed. 1290, involving construction of insurance contracts under the state law:

"As to considerations controlled by state law,

conflict among circuits is not of itself a reason for granting a writ of certiorari. The conflict may be merely corollary to a permissible difference of opinion in the state courts."

**4. No Important Substantial Federal Question Involved.**

This Court has previously denied certiorari in most of the federal court of appeals cases cited by petitioners. Apparently these questions were not considered sufficiently important to justify review by this Court. The same remains true at this time. The issue is one of state contract law. There is no picking machine monopoly or anti-trust law violation involved. The decision below turns upon its own facts and will affect few other than the litigants themselves and other Thys licensees.

The only authority cited by petitioners (Pet. 3) that this is a federal question is *Scott Paper Co. v. Marcalus*, 326 U.S. 249, 255. However, as hereinabove mentioned that was not a royalty contract case at all, but was a federal court patent infringement suit. Immediately preceding their quotation appears the following:

> "Sec. 24 (7) of the Judicial Code . . . confers on district courts of the United States jurisdiction of causes arising under the patent laws."

As hereinabove mentioned, this Court has repeatedly held that a royalty contract suit does not arise under the patent laws. Consequently Scott involved a substantial federal question, but this action does not.

This case involves considerations which in this type

of factual pattern are not likely to recur in other cases. The case also would require the resolution of questions of fact which were decided adversely to the petitioners in the lower courts. The same does not involve "a federal question of substance," and there are not "special and important reasons" for granting the writ, as required by Rule 19. *Rice v. Sioux City Memorial Park Cemetery*, 349 U.S. 70, 99 L. Ed. 897, 75 S. Ct. 614; *Layne v. Western Well Works, Inc.*, 261 U.S. 387, 393, 67 L. Ed. 712, 43 S. Ct. 422.

As hereinabove shown, the decision below rests on adequate grounds of local state contract law which do not arise under the federal patent laws. Consequently it is well settled that the discretionary writ of certiorari should be denied. *Black v. Cutter Laboratories*, 351 U. S. 292, 100 L. Ed. 1188, 76 S. Ct. 824; *Durley v. Mayo*, 351 U.S. 277, 100 L. Ed. 1178, 76 S. Ct. 806; *Cramp v. Board of Public Instruction*, 368 U.S. 278, 7 L. Ed. 2d 285, 82 S. Ct. 275.

The petitioners' contentions are therefore clearly untenable and cannot convert a correct decision as to local state contract law into an important federal question of substance.

## CONCLUSION

Accordingly for the foregoing reasons it is respectfully submitted that the petition for a writ of certiorari should be denied.

Respectfully submitted,
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